- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Analysis of an Integrated Resource Plan for Mountain Fuel Supply Company	)	DOCKET NO. 91-057-09
	)	ORDER ON DRAFT STANDARDS AND GUIDELINES FOR IRP; NOTICE OF TECHNICAL CONFERENCE

ISSUED: December 16, 1991

BY THE COMMISSION:

The following is a statement of the Commission's objectives and preliminary conclusions with regard to the establishment of standards and guidelines for Integrated Resource Planning (IRP) for Mountain Fuel Supply Company, ("MFS" or "Company"). Its purpose is to guide further discussions and considerations. A technical workshop will be conducted on Friday, the 17th day of January, 1992, at 9:00 a.m., in Room 427 at the Heber M. Wells State Office Building, 160 East 300 South, Salt Lake City, Utah. All interested parties are encouraged to attend. The conference will discuss MFS's recently submitted IRP and the Commission's newly proposed Standards and Guidelines presented in this Order. Written comments can be submitted after the technical conference until February 21, 1991.

STATEMENT OF OBJECTIVE AND PURPOSE

In order to insure that Mountain Fuel Supply's present and future customers are provided natural gas energy services at

the lowest cost[1] consistent with safe and reliable service, fiscal requirements of a financially healthy utility and the long-run public interest, the Utah Public Service Commission desires to establish standards and guidelines for Integrated Resource Planning for Mountain Fuel Supply. The Commission's goal is to provide a regulatory environment that encourages MFS to actively pursue its IRP as part of its own business strategy without regard to corporate structure and the needs of its corporate parent or subsidiaries.

PROCEDURAL HISTORY

In Docket No. 89-057-15, Mountain Fuel's gas planning and purchasing policies were examined. The Commission thereafter ordered MFS to submit an IRP by May 30, 1991; that date was extended at the request of MFS to September 30, 1991. On August 9, 1991, MFS conducted an IRP workshop that was open to interested parties. On September 30, 1991, MFS submitted its IRP. The Wyoming Public Service Commission also required MFS to submit the IRP for its examination. The Company is currently awaiting comments from both regulatory bodies. In addition, Wyoming has initiated a proceeding through the consolidation of two Dockets,

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[1] The Commission is contemplating the precise definition of "lowest total cost". For the purposes of this draft document total cost will include the cost incurred by the utility and the ratepayer in the production and consumption of natural gas energy services.

Nos. 30010-GI-90-8 and 30010-GI-91-14, that will require the Company to model a number of scenarios, within the IRP, to identify and measure the cost of gas supply options available to MFS.

Currently, no formal rules exist to guide development or evaluation of MFS's current or future IRPs. The Commission has issued an order outlining guidelines and standards for PacifiCorp's IRP which might provide a model for MFS. Many procedural IRP issues may be the same for both utilities. Other states have issued generic IRP rules for both gas and electric utilities. Consistency of IRP rules between utilities is valuable where appropriate. However, the Commission is cognizant of the difference between the two utilities and will promulgate guidelines accordingly.

PRELIMINARY DECISIONS ON THRESHOLD/PROCEDURAL ISSUES

1. The Commission has the legal authority to promulgate IRP Guidelines and Standards for MFS.

For a complete legal discussion of our authority to promulgate IRP guidelines, see pages 5-6 of our September 3, 1991 Order in Docket No. 90-2035-01, "In the Matter of the Analysis of an Integrated Resource Plan for PACIFICORP".

2. Commission will adopt the "information exchange" method of developing and implementing an IRP for MFS.

The Commission believes that an informal collaborative process, allowing the free exchange of information among all

interested parties during all stages of the planning process, is well suited to satisfactory resolution of integrated resource planning issues. Therefore, the Commission will adopt the information exchange approach. This will provide the opportunity for regulatory involvement at the proper time, while assuring that fundamental planning tenets will be consistent with Commission requirements.

3. Prudence reviews of new resources and gas acquisitions will occur during ratemaking proceedings.

The Commission and other parties intend to rely on the Company's IRP to evaluate the prudence of gas acquisition and capital expenditures. The submitted IRP can be used during general rate case proceedings and the gas pass-through cases. The latter will require the Company to perform an analysis of its gas acquisition and attendant costs, and to explain differences from the IRP. This might require reconsideration of the 30-day time period for regulatory evaluation of pass-through cases. Parties are requested to provide input on the procedure for comparing actual gas acquisitions with planned acquisitions and how such comparisons should be incorporated into the ratemaking process.

4. IRP process will be open to the public in all of its stages.

MFS will submit to the Commission a schedule of meetings to receive and incorporate public input into its planning process.

This will include a number of public meetings and a schedule for consultation with the Commission, other regulatory agencies, the general public and other interested parties. The Company will submit its preliminary schedule for public participation to the Commission for approval or modification by January 10, 1992. Meetings will occur on a regular basis throughout the year preceding the submittal of the plan. At a minimum, assumptions, input and output from the Company's Gas Contract Analyzer (GCA) model will be accessible to regulatory bodies, their consultants and possibly to other interested parties. The Company will pursue the possibility of obtaining the model in a PC compatible format and making the model available to the regulatory agencies and their consultants.

5. Environmental externalities must be considered in the planning process.

Environmental externalities arise when society incurs uncompensated damages that result from the production or consumption of natural gas. Federal and state environmental regulations are attempting to internalize "external costs" through emission standards, emission taxation or other measures. The extent to which MFS can mitigate these externalities needs to be addressed. It is recognized that for a gas utility (unlike an electric utility) there is no significant difference in emissions among supply-side options. Incorporating external costs could,

however, affect the balance between gas supply and demand-side resources including conservation and fuel switching. Therefore, an analysis of environmental externalities is important in the planning process as it will help evaluate the cost effectiveness of energy conservation measures. It is recognized that some uses of natural gas might mitigate environmental damage when compared to alternative sources of energy. For example, vehicles powered by natural gas currently produce fewer environmental externalities than vehicles powered by gasoline.

6. IRP must evaluate supply-side and demand-side resources on a consistent and comparable basis.

This means evaluation of the costs and benefits associated with each resource must be comprehensive and the comparison of alternatives must be performed in an analytically consistent manner.

7. The IRP will be used to calculate avoided gas costs.

Although avoided gas cost calculations are not mandated by the Public Utility Regulatory Policies Act (PURPA), such calculations may provide an objective cost effectiveness measure for demand-side resources.

8. Coordination with other regulatory agencies is important but the IRP should meet the needs of the Utah ratepayers.

Mountain Fuel is regulated by the Utah, Wyoming and FERC jurisdictions. The Commission's first concern is for Utah

ratepayers, but we also want to insure, whenever possible, consistency of regulatory treatment across jurisdictions as it effects system planning and operations.

9. Strategic Planning of the Questar Corporation should not control or unduly influence the development or implementation of MFS's IRP.

MFS's implementation of its IRP should be unencumbered by constraints of its corporate structure or the needs of its corporate parent or any of its subsidiaries. Questar's corporate interests should only be considered when they coincide with the interests of MFS's ratepayers.

GUIDELINES

1. Definition:

Integrated resource planning is a utility planning process which evaluates all known resources on a consistent and comparable basis, in order to meet current and future natural gas energy service needs at the lowest cost to the utility and its ratepayers, and in a manner consistent with the long-run public interest. The process should result in the selection of resources (regardless of corporate connection) that will yield the optimal combination of expected costs and risk. Risk can be measured by the variance of costs resulting from unexpected outcomes.

2. The Company will submit its IRP biennially, beginning September, 1992.

3. The Integrated Resource Plan will be developed in consultation with the Commission, its staff, the Division of Public Utilities, the Committee of Consumer Services, appropriate Utah State agencies and other interested parties that obtain Commission approval to intervene.

Mountain Fuel will provide ample opportunity for public participation during the development of its Plan. MFS will file a tentative schedule of its public meetings fifteen months before the plan is due. Public meetings and consultation with regulatory bodies will take place on a regular basis during the year preceding the submittal of the plan.

4. MFS's future integrated resource plan will include:

a. A description of the Plan's objectives and goals.

b. A range of estimates or forecasts of load growth, which include firm customer peak-day requirements, winter season requirements and annual requirements.

c. An analysis of how various economic and demographic factors, including the prices of natural gas and alternative energy sources, will affect the consumption of energy services, and how changes in the number, type and efficiency of end-uses will affect future loads.

d. An evaluation of all present and future resources, including future market opportunities (both demand-side and supply-side), on a consistent and comparable basis. This includes but is not limited to:

1. An assessment of all technically feasible improvements in the efficient use of natural gas, including load management and conservation.

2. An assessment of all technically feasible delivery and gas supply options including but not limited to: MFS-owned gas, Questar Pipeline Rate Schedule CD-1, spot market purchases which includes firm transportation (standby and T-1) and interruptible transportation, alternative pipeline transportation, contract storage service, independent producer contracts, 5-cent waiver supplies, peak shaving alternatives, and other possible options.

e. An analysis of the system capability and constraints including: the transmission system, the storage reservoirs and the distribution system.

f. A 10-year planning horizon.

g. An analysis of how the changes in the regulatory environment can/will affect the range of resource options available to MFS.

h. A one-year action plan, plus a second one-year plan in the off year, outlining the specific resource decisions

intended to implement the Integrated Resource Plan in a manner consistent with the Company's strategic business plan.

i. Load forecasts integrated with resource options in a manner which rationalizes the choice of resources under a variety of economic and weather circumstances.

j. An evaluation of the cost-effectiveness of the resource options from a variety of perspectives: the utility, the ratepayer, state, and society as a whole.

k. An evaluation of the risks associated with various resource options and how the one-year action plan addresses these risks in the context of both the Company Business Plan and the 10-year Integrated Resource Plan.

l. Considerations permitting flexibility in the planning process so that the Company can take advantage of opportunities and can prevent the premature foreclosure of options.

m. An analysis of tradeoffs; for example, between such conditions of service as reliability and the acquisition of lowest cost resources.

n. A range, rather than attempts at precise quantification, of estimated external costs which may be intangible, in order to show how explicit consideration of them might affect selection of resource options, and one scenario showing the costs of a resource acquisition strategy that has minimal environmental impact and thus minimal external costs to

society.

5. MFS will submit its IRP for public comment, review and acknowledgement.

The public, state agencies and other interested parties will have the opportunity to present formal comment to the Commission on the adequacy of the Plan. Outside expertise might be required to evaluate the Company's IRP, if needed the Commission will so order. The Commission will review the Plan for adherence to the standards and guidelines stated herein (and as may be hereafter modified), and will judge the merit and applicability of the public comment. If the Plan needs further work, the Commission will remand it to the Company with comments and suggestions for change. This process should lead more quickly to the Commission's acknowledgement of an acceptable Integrated Resource Plan. Formal hearings and acknowledgement of the IRP may be appropriate. Acknowledgement of the Plan means the Commission deems the process and analysis in the Plan reasonable at the time it is presented.

6. Acknowledgement of an acceptable Plan will not guarantee favorable ratemaking treatment of future resource acquisitions.

Ratemaking treatment of future resource acquisitions will have to be assessed by the Commission through rate case or pass through proceeding. However, rapid, favorable ratemaking treatment of the costs of new resource acquisitions will be far more likely

given early and reliable information and inclusion in the Plan.

7. The Integrated Resource Plan will be used in rate cases to evaluate the performance of the utility.

It is the objective of the Commission that the IRP be used in assessing and evaluating the Company's requests for gas cost pass-through as well as evaluating cost recovery in general rate cases.

CONCLUSIONS AND REQUEST FOR RESPONSE

The foregoing represents the Commission's preliminary consideration of regulatory requirements for Mountain Fuel Supply's Integrated Resource Planning process. The Commission is requesting comment on any of the preliminary conclusions made in this report. Additionally, some important issues remain and the Commission would especially appreciate comments regarding them. An example is the proper definition of lowest total cost. Should it be defined in terms of lowest rates or lowest revenue requirement? Should it include the costs incurred by ratepayers as well as the utility? Should lowest total cost include external costs? If so, what is the proper role of environmental externalities in the planning and ratemaking process?

Another important issue is possible changes in the regulatory environment that might encourage the Company to pursue end-use efficiencies, load management and conservation. The Commission is aware that demand-side resources are more difficult

to acquire than supply-side resources and that regulatory disincentives may exist. Regulatory mechanisms which would provide comparable incentives for acquisition of both demand-side and supply-side resources may be needed. These could include changes in regulatory treatment of conservation expenditures, approval of energy service charges for efficiency improvements and conservation, revenue adjustment mechanisms, the granting of a cost advantage for efficiency or conservation acquisitions, and the decoupling of revenues from profits.

Other issues that would benefit from public discussion include the relationship between the Company's IRP and its business plan. How can the Company pursue its IRP if it conflicts with the goals of its corporate parent or sisters? How should the IRP be analyzed and acknowledged? Should consultants be engaged in such reviews on a regular basis? Fuel switching issues and interjurisdictional consistency of planning requirements and subsequent ratemaking treatment are other issues that would benefit from public comment.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED that the foregoing proposed standards and guidelines for integrated resource planning for Mountain Fuel Supply, Utah jurisdiction, be and are preliminarily adopted and that they be sent to all parties in this Docket and to any other parties who have manifested an interest.

Parties that wish to respond in writing should do so by February 21, 1992. Thereafter, upon full consideration of parties' comments, the Commission will hold a hearing, if necessary, or adopt by formal order, final standards and guidelines to be followed by Mountain Fuel Supply in its integrated resource planning. The Commission will hold a technical conference on Friday, the 17th day of January, 1992 at 9:00 a.m., in Room 427 of the Heber M. Wells Building at 160 East 300 South in Salt Lake City. The conference will allow discussion of the Company's recently submitted IRP and provide opportunity for comment on the Commission's proposed standards and guidelines for future Mountain Fuel IRPs. It is further ordered that the Company submit its preliminary schedule of public participation in its integrated resource planning to the Commission on or before January 10, 1992.

DATED in Salt Lake City, Utah this 16th day of December, 1991.

/s/ Brian T. Stewart, Chairman

(SEAL)

/s/ James M. Byrne, Commissioner

/s/ Stephen C. Hewlett, Commissioner
Pro Tempore

ATTEST:

/s/ Julie Orchard
Commission Secretary